

Message Text

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PAGE 01 SEOUL 04632 010803Z

ACTION EB-08

INFO OCT-01 EA-10 ISO-00 PA-01 AID-05 CIAE-00 COME-00

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1405

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

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HONG KONG FOR REG FIN ATT

E.O. 11652: N/A

TAGS: EFIN EALR KS

SUBJ: \$500 MILLION "JUMBO CREDIT" SIGNED IN SEOUL

REF: SEOUL 3289

1. BEGIN UNCLASSIFIED. SIGNING CEREMONY WAS HELD IN SEOUL ON MAY 31 FOR A \$500 MILLION EURODOLLAR LOAN FROM A SYNDICATE OF 49 FOREIGN BANKS. AS REPORTED IN REFTEL, LOAN IS TO BE SHARED EQUALLY BY THE KOREA EXCHANGE BANK AND THE KOREA DEVELOPMENT BANK, WHICH WILL USE THE FUNDS, AS NEEDED, TO FINANCE VARIOUS NEW PROJECTS UNDER THE 4TH FIVE-YEAR DEVELOPMENT PLAN. CO-MANAGERS OF THE LENDING GROUP ARE BANKER'S TRUST CO. OF NEW YORK, CITICORP INTERNATIONAL GROUP, AND CHASE MANHATTAN ASIA LTD.; THE SYNDICATION WAS PUT TOGETHER IN HONG KONG.

2. LOAN IS SIGNIFICANT IN THAT IT IS ONE OF THE LARGEST

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PAGE 02 SEOUL 04632 010803Z

SYNDICATED CREDITS EVER MADE IN ASIA (THE LARGEST IN KOREA'S HISTORY), AND TERMS ARE THE MOST FAVORABLE EVER RECEIVED BY KOREA ON A MAJOR EURODLLAR LOAN. AS REPORTED IN REFTEL, TERMS ARE LIBOR PLUS 0.875 PERCENT, 0.5 PERCENT COMMITMENT FEE, AND TEN YEARS' MATURITY WITH THREE YEARS' GRACE. MANAGEMENT FEE IS 1.0 PERCENT ON FIRST \$300 MILLION AND 0.75 PERCENT ON THE REMAINING \$200 MILLION.

3. AS REPORTED EARLIER, THE SIZE OF THE LOAN WAS ORIGINALLY SET AT \$300 MILLION. AS IT TURNED OUT, HOWEVER, THE SYNDICATION ATTRACTED A FLOOD OF EAGER LENDERS DESPITE THE GENEROUS TERMS, AND THE AMOUNT WAS LATER INCREASED TO \$570 MILLION AT ONE POINT, BUT THE KOREAN MINISTRY OF FINANCE DECIDED IT DIDN'T NEED THE ADDITIONAL \$70 MILLION. END UNCLASSIFIED.

4. BEGIN LIMITED OFFICIAL USE. COMMENT: THE RUSH OF FOREIGN BANKS TO PARTICIPATE IN THIS LOAN, DESPITE THE THIN PROFIT MARGIN, CAN ONLY BE EXPLAINED BY: (A) KOREA'S STEADILY IMPROVING CREDITWORTHINESS; AND (B) THE CURRENT ABUNDANCE OF LIQUIDITY IN THE INTERNATIONAL BANKING SYSTEM, COMBINED WITH A DEARTH OF ATTRACTIVE LENDING OPPORTUNITIES. A FEW FOREIGN BANKS, REBELLING AGAINST THE GENEROUS TERMS--AND THE DANGEROUS PRECEDENT THEY HAVE SET FOR FUTURE LOANS TO PRIVATE AS WELL AS GOVERNMENT BORROWERS--REFUSED TO "JOIN THE BANDWAGON"; THEY ATTRIBUTE THE EAGERNESS OF OTHER BANKS, IN GOOD MEASURE, TO THE HERD INSTINCT AND TO A DESIRE TO CURRY FAVOR WITH THE KOREAN GOVERNMENT, WHICH HAS BEEN ACTIVE IN PROMOTING THE LOAN.

5. IT IS NOT CLEAR THAT THE KOREANS REALLY HAVE A PRESSING NEED FOR THE FULL \$500 MILLION, WHICH AFTER ALL REPRESENTS MORE THAN 25 PERCENT OF THE ENTIRE \$1,920 MILLION PUBLIC/COMMERCIAL LIMITED OFFICIAL USE

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PAGE 03 SEOUL 04632 010803Z

FOREIGN LOAN INDUCEMENT TARGET FOR 1978. AS SUGGESTED IN ONE TRADE JOURNAL, THE LOAN IS TO SOME EXTENT A MUSCLE-FLEXING EXERCISE BY THE KOREAN GOVERNMENT, DESIGNED AS A FURTHER DEMONSTRATION--IF ONE BE NEEDED--THAT KOREA HAS "ARRIVED" AS AN ECONOMIC POWER. STERN

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